

# TIF Frequently Asked Questions (FAQ)

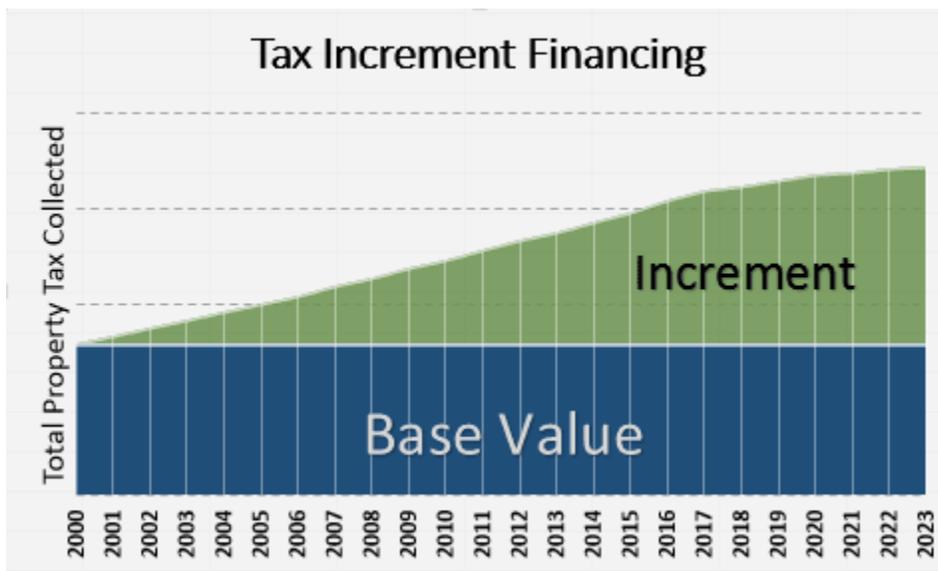
## What is Tax Increment Financing (TIF)?

Tax Incremental Financing (TIF) is an economic development tool that helps local governments improve historic districts, restore run-down and blighted areas, or jump-start economically challenged parts of town. TIF funds help municipalities to make needed improvements, like new roads and sewers, or provide incentives to attract private development and new businesses. TIF designation also helps existing businesses expand or improve their properties that might otherwise find more attractive options elsewhere. TIF helps to overcome the extraordinary costs that often prevent development and private investment from occurring, including the remediation of environmentally contaminated properties, investing in new infrastructure, and assembling small properties into a single larger parcel for redevelopment.

Since the Federal and State governments have greatly reduced their support for economic development, Tax Increment Financing permits municipalities to accept some of this responsibility without raising local property taxes to fund public investment.

Without TIF benefits, development in certain areas may not be economically feasible. Businesses do not sink capital into decaying areas, and most local governments cannot afford the needed costly improvements without raising taxes. But in a TIF district, dollars for improvements are generated by businesses—new and old—attracted by the TIF benefits. Specifically, money for infrastructure improvements and other incentives comes from the growth in property tax revenues—the tax increment.

## What is a “Tax Increment”?



When a TIF district is created, the property values for all of the parcels within the district are frozen, creating a base value. As development occurs and property values increase, the overall value of the district increases as well. This new value that is created is called the increment, which is the difference between the current total value and the base value. The increment is collected into a special fund that the Village can then invest back into the district under specific rules.

Establishment of a TIF does not reduce property tax revenues available to the overlapping taxing bodies. These taxing bodies continue to collect the property taxes at the base value throughout the life of the TIF. Upon the expiration of the TIF, property taxes continue to be distributed to the school districts, county, community college, and all other affected taxing districts in the same manner as if the TIF did not exist.

### **How do TIFs improve communities?**

TIFs create short- and long-term benefits for communities:

- No tax increases attributed directly to development of infrastructure
- Improvements to blighted areas of the Village
- Increased property values
- Private investment and development
- New jobs
- Job retention
- Job training programs
- Stronger, broader tax base
- Stronger economic base
- Locally controlled development
- Incremental revenue is reinvested in the TIF district
- Stimulates investment outside TIF district boundaries.

### **Why is there a need for Tax Increment Financing?**

There are some areas where traditional market mechanics may not support redevelopment. TIF provides local governments with a tool to overcome economic barriers in these specific areas and partner with developers and investors to make improvements. TIF has specific rules for how the increment can be spent to partner with a business or developer. An example of this would be if an investor wanted to rehabilitate a former industrial building into a new high-end office space, but the site had contamination from its previous use. The high cost of the environmental clean-up may be enough for the project to be financially infeasible. Recognizing that the proposed concept would be beneficial to the community and long-term fiscal health of all the local taxing bodies, the Village could use TIF funds to cover the cost of the environmental remediation, thus moving the project forward.

### **Does the Village of Long Grove have a TIF District in effect?**

Currently, the Village of Long Grove has one TIF district in effect:

Illinois 83/Downtown TIF District.

### **How can I get information about Long Grove TIFs?**

Contact Dave Lothspeich at the Village of Long Grove: 847-634-9440.

## **Does a TIF divert money from schools?**

No. As a matter of fact, TIFs can create money for schools. Schools continue to receive all the tax revenue they were entitled to before the creation of the TIF district. Also, improving blighted areas of the Village would increase the tax base in the long-run. The property tax revenue generated from private development attracted by a TIF designation is truly “new” money. Without TIF, development would not occur and the tax increment would not be produced.

Some critics of TIF argue that school districts are entitled to immediately receive a percentage of the TIF increment. However, it is the tax increment that pays for the improvements that attract private investment and stimulates economic growth. If the increment cannot be used for financing improvements and incentives, private investment and economic development will not occur, and no increment will be made available to any taxing bodies. With redevelopment property values will rise in properties surrounding the TIF area, providing added revenue to the school district and preventing further deterioration of the tax base.

When the TIF district expires, the tax increment is returned to the tax rolls and available to schools and other local taxing bodies.

## **How is a TIF created?**

Illinois TIF law specifies a number of requirements that must be satisfied for an area to qualify as a TIF district, beginning with identifying the district and the physical and economic deficiencies that need to be cured. Then municipal officials and a joint review board made up of representatives from local taxing bodies must review a plan for the redevelopment of the TIF area. A public hearing is held where residents and other interested parties can express their thoughts on the subject. The proposal must pass through the same approval process through the municipal governing board. Finally, the Village president will sign the ordinance into law. No state or federal approval is required.

## **What kind of planning goes into the development of a TIF project area?**

A Redevelopment Plan is an assessment of an area in need of economic assistance. The Plan demonstrates why the area needs to be redeveloped and how the municipality plans to revitalize the area.

Illinois law requires review by the major overlapping local taxing bodies and a public hearing on the Redevelopment Plan prior to TIF designation. The Plan must be made available for public review and inspection at least 45 days prior to the public hearing.

A Redevelopment Plan includes the following elements:

- A description of the boundaries of the district recommended for redevelopment
- Reasons for redevelopment of the area
- Documentation of how the area satisfies the “but for” requirement in order to qualify for TIF eligibility
- Redevelopment goals and objectives for the area
- An explanation of how the land in the proposed TIF district will be used
- A budget for the life of the TIF district, including the total TIF-eligible costs of the plan
- An evaluation of the fiscal and programmatic impact on the overlapping taxing bodies
- A description of the process to amend the plan
- A statement of conformance with the municipality’s comprehensive plan
- A timetable for redevelopment of the area.

## **What major redevelopment costs are eligible for TIF funding? What kinds of projects are permitted under the State TIF Act?**

TIF funds may be used for costs that will permit previously developed properties to compete with vacant land at the edge of the urban area. State legislation authorizes that TIF funds may be used for the following types of projects:

- Property acquisition
- Rehabilitation or renovation of existing public or private buildings
- Construction of public works or improvements
- Job retraining programs
- Relocation
- Financing costs, including interest assistance
- Studies, surveys, and plans
- Professional services, such as architectural, engineering, legal, property marketing, and financial planning
- Demolition and site preparation
- Day care services
- A budget for the life of the TIF district, including the total TIF-eligible costs of the plan
- An evaluation of the fiscal and programmatic impact on the overlapping taxing bodies
- A description of the process to amend the plan
- A statement of conformance with the municipality's comprehensive plan
- A timetable for redevelopment of the area.

### **What is the "but for" test?**

When considering an area for TIF designation, municipal officials must ask the question, "Will the same kind of private investment occur here without an incentive?" In order to designate that area as a TIF district, the answer to this question must be "No." But for the incentive provided by TIF, development would not occur in the designated area." Evidence that the district satisfies the "but for" test is provided in the Redevelopment Plan. Illinois has one of the most stringent "but for" test of the 47 states that use Tax Increment Financing.

### **What conditions must exist for an area to be designated for TIF?**

Illinois law includes three sets of conditions for qualifying areas as TIFs:

- blighted conditions
- conservation conditions
- industrial park conservation conditions

#### **To be designated as a blighted area:**

Improved property (land that is not vacant) must contain at least 5 of 14 factors that make it detrimental to the public safety, health or welfare of the community. These factors must be present, with that presence documented, to a meaningful extent so that a municipality may reasonably find that each factor is clearly present and reasonably distributed throughout the improved part of the area. These factors are as follows:

- Dilapidation
- Obsolescence
- Deterioration
- Illegal use of individual structures
- Structures below minimum code standards
- Excessive land coverage and overcrowding of structures and community facilities
- Lack of ventilation, light or sanitary facilities
- Inadequate utilities
- Excessive land coverage
- Deleterious land use or layout
- Environmental clean-up
- Declining equalized assessed value
- Lack of community planning.

Vacant land must have at least two of the following six factors that impair sound growth of the area, using comparable standards of evidence as for improved areas:

- Obsolete platting
- Diversity of ownership
- Tax and special assessment delinquencies
- Environmental contamination
- Declining equalized assessed value
- Deterioration of structures or site improvements on adjacent land.

In addition, there are six other types of vacant land that can be designated for TIF. They include land that was blighted before becoming vacant; unused quarries, mines, or strip mine ponds; unused rail yards, rail tracks or railroad right-of-way; chronic flooding that adversely impacts on property in the area and is caused by improvements recently constructed in the area; unused or illegal disposal sites; and large areas that have been previously designated as a Village center and meet other requirements.

**To be designated as an industrial park conservation area:**

The municipality must have had a relatively high unemployment rate and the area to be designated must:

- be located within the municipality or within 1.5 miles of the municipal boundaries and be annexed to the municipality
- be zoned industrial prior to the establishment of the TIF
- contain vacant land suitable for an industrial park and a blighted or conservation area contiguous to the vacant land.

**To be designated as a conservation area:**

At least 50% of the structures in the improved area must be 35 years old and three of the 14 factors for designation of a blighted area and another factor entitled “excessive vacancies” must be present.

## **What are the opportunities for public input?**

In the establishment and operation of a TIF district, there are many opportunities for public participation:

- Before a TIF district is created, the Redevelopment Plan must be available for public review at least 45 days prior to the public hearing. The public hearing offers the community an opportunity to raise questions and voice their concerns about the proposed redevelopment. A member from the community, representing the public, serves on the Joint Review Board along with representatives of the major taxing bodies overlapping the TIF.
- A registry of interested residents and organizations must be created for each TIF, and a notice of important TIF activities shall be sent to those registered.
- Board meetings of the Village Board afford the public another opportunity to voice support or opposition of the TIF district.
- Extensive annual reports are required for each TIF and will soon be available to the public through the State Comptroller's web page.
- Additional notices and public meetings are required for certain housing TIFs.

## **Who controls TIF funds?**

Municipal officials control the allocation and disbursement of funds within the TIF district.

## **Does TIF require the issuance of debt?**

The creation or amendment of a TIF district does not mean that any debt will be created or incurred. The Village Board may decide to issue bonds and incur debt with the revenue source being the incremental property tax, or the Village Board may choose to just assist via funds which have already been built up in the restricted TIF fund.

## **Can TIFs be changed?**

Yes, TIFs can be changed. In the case of minor changes to the Redevelopment Plan, notice must be given to all taxing bodies and to the public through publication in a newspaper of general circulation within the area prior to the TIF being established. However, major changes to the Redevelopment Plan adding parcels of property to the TIF district, changing land use, changing the nature of or extending the life of a TIF, increasing the number of low income households to be displaced, add new redevelopment costs to the budget, or increasing the budget by more than 5% after adjustments for inflation, require another public hearing, and all the opportunities for public input that were available during the initial establishment of the TIF district.

## **Who monitors the TIF process?**

Local governments monitor the progress of the TIF district. By law, all the school districts and major taxing bodies meet with the TIF municipality annually to review the progress of each TIF. Under Illinois law, municipalities have an obligation to cooperate with other taxing bodies in monitoring TIFs. By law, the Joint Review Board must meet annually to review the effectiveness and status of the TIF district.

### **When does a TIF terminate?**

Illinois TIF law allows a TIF district to exist for a maximum of 23 years. Any TIF district may be terminated earlier if all financial obligations are paid off and the municipal board votes to terminate the district. An extension is available if legislation is passed by the State Legislature.

If no redevelopment project has been initiated within a TIF district within seven years following district designation, the municipality must repeal the TIF. Upon termination of the TIF district, the full tax base, including the increment which had been used to pay for improvements, becomes available to all taxing bodies for their use throughout the future.

### **What communities in Illinois use TIF?**

In Illinois, TIF districts are used by communities with populations as small as 138 and as large as 2.8 million and every size community in between. TIF can help any size community rebuild infrastructure and attract private investment. TIFs are found throughout Illinois. A complete list of Illinois communities with TIFs is available on the [Illinois Comptroller's website](#).